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SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES - VIETNAM

Ref: A) STATE 39410 ("Survey: Impact of Rising Food");
B) HANOI 377 ("PM Declares War on Inflation");
C) 07 HANOI 1729 ("Vietnam's Inflation Conundrum");
D) 07 HANOI 2013 ("Inflation Hits 10 Percent");
E) HANOI 394 ("Vietnam Cutting Rice Exports");
F) HANOI 206 ("Record Cold Snap");
G) HANOI 475 ("Vietnam Econ Highlights")

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11. (SBU) Summary: Tackling rising food prices is part of Vietnam's larger challenge of addressing soaring inflation rates, which hit 21.5 percent year-on-year in April. International agricultural experts say that they are not worried about food security, even among Vietnam's rural poor, noting that their local and provincial contacts are not sounding alarms or reporting instances of food shortages. Prime Minister Nguyen Tan Dung underscored this message when he assured provincial officials on April 27 that Vietnam has enough food for itself and to meet its export obligations. As a net food exporter, Vietnam should remain sheltered from violence, political instability and growing poverty rates feared elsewhere due to food shortages. In fact, Vietnam and its large farming population stand to benefit from rising global food prices, particularly if Hanoi can tame the rising prices of agricultural inputs such as fuel, and farmers can enhance their productivity. End summary.

CONTEXT: HIGH FOOD PRICES PART OF LARGER INFLATION PROBLEM

12. (U) The Government of Vietnam (GVN) continues to combat soaring inflation rates (REF B, C and D), which hit 21.5 percent year-on-year in April, according to Vietnam's General Statistics Office (GSO). Food prices, which comprise roughly 43 percent of the basket of goods Vietnam uses to calculate its consumer price index, are up 34 percent from one year ago and are a significant contributing factor to Vietnam's inflation. The price of rice, Vietnam's main staple, has gone up by 51 percent in the last year. Prices of other key products have also risen dramatically, with fuel rising 42 percent in the last six months, housing and construction materials up 24 percent from a year ago, and transportation prices 18 percent higher.

AMPLE STOCKS: MEASURES ADDRESS INFLATION NOT SCARCITY

13. (U) It was in the context of these broad inflationary pressures that Vietnam, the world's second largest rice exporter, announced

plans to cut 2008 rice exports by up to 22 percent (REF E). Most international and local experts agree that lowering the price of rice, rather than concerns over available stocks, drove the GVN to cap rice exports at 3.5 to 4 million tons this year. During an April 27 teleconference with national and provincial officials, Prime Minister Nguyen Tan Dung underscored that the country has sufficient rice supplies, reporting that state-owned agencies will continue to buy rice for national reserves and distribution to regions which may face a shortage. The PM threatened to punish organizations and individuals engaging in speculation, which he blamed for the recent rise in food prices. While Vietnam's rice export cap fueled fears of shortages across Asia and the world, Vietnam is a net food exporter and so it will likely remain sheltered from food shortages, threats of violence, political instability or growing poverty rates. In fact, the GVN and Vietnamese farmers are working to increase this year's output to take full advantage of high global commodity prices.

¶4. (U) Local and international experts, including FAS/Vietnam, the UN Food and Agriculture Organization (FAO) Representative in Vietnam and the World Bank's (WB) Rural Sector Coordinator told Econoff that they did not fear food scarcities, even among Vietnam's rural poor. Severin Kodderitzsch of the World Bank noted that his national and provincial official contacts are "entirely calm" about rising food prices, and have not yet sounded alarms nor called for WB assistance. "We have not heard of any instances of shortages," added FAO's Andrew Speedy.

DEMAND: LITTLE EVIDENCE OF SHORT-TERM SHIFTS IN CONSUMPTION

¶5. (U) Once unable to feed itself, Vietnam has transformed its agricultural sector to produce more than it needs domestically, and now exports significant quantities of pepper, coffee, cashews, seafood products and rice, among other products. Vietnam exported

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4.5 million metric tons of rice in 2007, which accounted for roughly 12.8 percent of its total rice production and 20-25 percent of the rice traded on the international market. Per capita consumption of rice is currently around 150kg/year; 12 percent lower than ten years ago (according to FAS/Vietnam's April 2008 Grain and Feed Report). This change in consumption patterns is largely a result of rising incomes and greater access to other foods as Vietnam has integrated into the global market.

¶6. (U) As world fuel prices and the cost of inputs such as fertilizer and pesticide continue to increase, Vietnam's GSO reports that the price of rice has risen 51 percent over the last 12 months, and 17 percent in just the first three months of 2008. Other key agricultural commodities have also jumped in price. While national data is not currently available for individual products, data from the Ho Chi Minh City Statistics Office provides some indication of price jumps, reporting that y-o-y meat prices are 59 percent higher, fishery and seafood products 24 percent, and milk and butter are up 23 percent. Newspapers report that a small number of consumers may be cutting their consumption of meat products and eating more lower-cost goods such as vegetables, but there is little evidence of a widespread shift in consumption patterns. Many of Vietnam's poorest are subsistence farmers of commodities like rice and are therefore less affected by rising prices on the market, while others living close to the poverty line have to date been able to feed their families despite the higher prices, according to FAO's Speedy.

SUPPLY: NO SIGN OF FOOD SHORTAGES

¶7. (U) Despite an earlier cold spell which affected the north and central regions of Vietnam (REF F), rice production is expected to remain relatively consistent with last year. Analysts are predicting only a slight decline in output from 35.36 million tons in 2007 to 35.21 million tons in 2008, despite an approximately 35,000 hectare drop in the total harvested area for rice. Higher anticipated yields and a shift to higher-production, more pest-resistant rice strains should compensate for the reduction in

cultivated land. Government officials and industry observers are encouraging farmers to increase productivity and switch to higher yield varieties of rice to ensure domestic food supplies and to enable Vietnamese farmers, over half of Vietnam's labor force, to take advantage of higher global prices. Corn production, another key domestic grain, is expected to increase 8 percent over 2007, as a result of improved yields and an increased cultivation area, according to FAS/Vietnam's April Grains and Feed report. In the foreseeable future, there are no signs of food shortages in Vietnam.

POLITICAL IMPACT

¶8. (SBU) Vietnam is politically stable and calm, despite rising global commodity prices. Post is not aware of instances where food prices have led to public protests or outcries. Moreover, many believe that Vietnam's cuts in rice exports were as much a political maneuver to demonstrate that the GVN is taking proactive steps to address the rising cost of living, as they were to bring about real price reductions. UN Development Program Senior Country Economist Jonathan Pincus asserted that the GVN instituted the export cap as a measure of "political stability."

ECONOMIC IMPACT: OPPORTUNITIES AND CHALLENGES

¶9. (U) Vietnam remains a heavily agrarian economy. Rising global food prices offer lucrative opportunities for farmers to reap greater profits on the domestic and international markets. Professor Dao The Tan, former Director General of Vietnam's Agriculture Science and Techniques Academy, pointed out that many agricultural workers are abandoning recent efforts to diversify their crops to instead increase rice production in response to skyrocketing world prices. The rising costs of inputs (such as fuel, fertilizer and pesticides) and transportation, however, are cutting into these potential gains.

¶10. (U) On a macro-scale, insomuch as food prices are driving higher inflation, they are impacting Vietnam's growth. In late April, the National Assembly approved a GVN proposal to revise the projected GDP growth rate from the 8.5-9 percent target to seven percent. National Assembly members would not, however, budge on the poverty

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reduction target of 11-12 percent (REF G). National Assembly Economic Commission Chairman Ha Van Hien directed the GVN to observe closely the impact of rising prices on Vietnam's farming families and rural communities, warning that the high inflation rates Vietnam is experiencing, if not properly addressed, could threaten to erase the economic benefits they have attained as a result of Vietnam's recent economic success.

ENVIRONMENTAL IMPACT

¶11. (U) The Ministry of Natural Resources and Environment's (MONRE) Institute for Environmental Strategy and the Ministry of Agriculture and Rural Development's (MARD) Institute for Agriculture Strategy and Policy report that no research has been conducted on the environmental impact in Vietnam caused by rising food prices. Deputy Prime Minister Nguyen Sinh Hung, however, recently instructed the GVN to look into increasing productivity and land use efficiency at 130 state-owned farms. Higher food prices and the push for greater agricultural productivity have drawn into focus Vietnam's challenge of land allocation. The rush to attract foreign investment and fuel the modernization of the economy has led to growing urbanization; rice paddies are overtaken in the interest of developing new industrial parks and factories. Higher commodity prices may lead some provincial authorities to re-evaluate recent land allocation decisions in pursuit of the most profitable use of that land.

GOVERNMENT POLICY RESPONSE

¶12. (U) On March 31, Prime Minister Dung unveiled a seven-pronged strategy to combat inflation (REF B). This was preceded by the March 26 announcement of rice export cuts -- the first and most visible action the GVN has taken in response to rising food prices. In addition to capping exports, the GVN has instructed traders not to sign new rice export contracts until June, at the earliest, to ensure domestic supply and depress prices on the local market. Existing rice export contracts have not been affected. Prime Minister Dung has also asked the Ministry of Finance to look into rice export taxes, although it is not clear whether this would be in addition to or in lieu of the export cap. MARD and MONRE officials have encouraged farmers to increase productivity to move from subsistence farming to a level where they can better meet the growing global demands for agricultural commodities. The DPM-ordered investigation of land use at state-owned farms is also part of Vietnam's effort to improve agricultural output, which the GVN views as a key component of tackling inflation.

IMPACT ON POST PROGRAMS

¶13. (U) Post has not seen any impact on programs from the rising cost of food.

POLICY PROPOSALS AND COMMENT

¶14. (SBU) The causes of Vietnam's inflationary issues are broader than the food price increases (REFS B, C and D), and any effort to tackle increasing food prices must be made in tandem with efforts to address those other factors. FAO and World Bank experts described Vietnam's rice export cap as "unnecessary," and opined that based on their past experiences, such a measure will likely not bring about the GVN's desire for lower prices. These experts suggest instead increased spending on agricultural research, irrigation projects and national poverty and hunger reduction programs would be a much more effective way of holding down prices while staving off concerns over food shortages. On balance, Vietnam has the potential to reap benefits from the run up in global food prices, particularly if the GVN finds a way to tame the soaring inflation rates at home.

¶15. (U) This cable was coordinated with FAS/Vietnam and ConGen HCMC.

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